



06003717

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

AB 3/3/06

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| OMB APPROVAL  |
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ANNUAL ADDED REPORT  
FORM X-17A-5  
PART III

|                 |
|-----------------|
| SEC FILE NUMBER |
| 8- 21817        |

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 1/1/05 AND ENDING 12/31/05  
MM/DD/YY MM/DD/YY

## A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Federal Street Capital, Inc.

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM I.D. NO.

301 Edgewater Place, Suite 425

(No. and Street)

Wakefield

Ma.

01880

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Andrew D. Clapp, President

(781) 295-4000

(Area Code - Telephone Number)

## B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Darmody, Merlino &amp; Co., LLP

(Name - if individual, state last, first, middle name)

75 Federal Street, 15th floor

Boston

Ma.

(Address)

(City)

(State)

(Zip Code)

PROCESSED

MAR 22 2006

THOMSON  
FIN 02110

CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

|  |
|--|
| SECURITIES AND EXCHANGE COMMISSION             |
| RECEIVED                                       |
| FEB 24 2006                                    |
| BRANCH OF REGISTRATIONS<br>AND<br>EXAMINATIONS |
| 02   |

FOR OFFICIAL USE ONLY

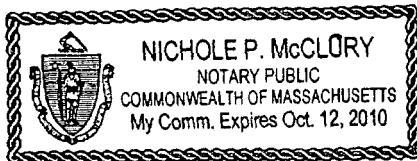
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

Potential persons who are to respond to the collection of  
information contained in this form are not required to respond  
unless the form displays a currently valid OMB control number.

SEC 1410 (06-02)

## OATH OR AFFIRMATION

I, Andrew D. Clapp, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Federal Street Capital, Inc., as of December 31, 2005, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



Andrew D. Clapp  
Signature  
President  
Title

N. McClory  
Notary Public

This report \*\* contains (check all applicable boxes):

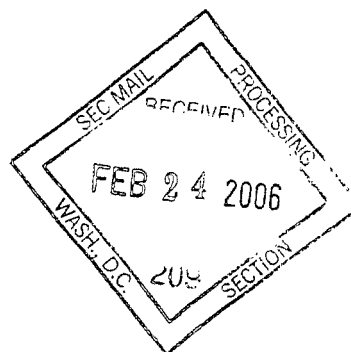
- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Independent Auditor's Report on Internal Accounting Control

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

FEDERAL STREET CAPITAL, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2005



FEDERAL STREET CAPITAL, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2005

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# Darmody, Merlino & Co., LLP

CERTIFIED PUBLIC ACCOUNTANTS

75 Federal Street, Boston, Massachusetts 02110-1997

JOHN P. DARMODY, CPA - 1938 - 1961  
PHILIP P. MCDONNELL, CPA - 1962 - 1995

FRANK A. MERLINO, CPA  
GEORGE J. McDONALD, CPA  
ROBERT J. BOYLE, CPA  
A. DENNIS BARBO, CPA  
MICHAEL L. MEYERS, CPA  
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## Independent Auditor's Report

To the Board of Directors and Stockholders  
Federal Street Capital, Inc.  
Wakefield, Massachusetts

We have audited the accompanying balance sheet of Federal Street Capital, Inc. (a Massachusetts corporation) as of December 31, 2005, and the related statements of operations and deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Federal Street Capital, Inc. as of December 31, 2005, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Darmody, Merlino & Co., LLP*

January 23, 2006

FEDERAL STREET CAPITAL, INC.

BALANCE SHEET - DECEMBER 31, 2005

ASSETS

CURRENT ASSETS:

|                           |                 |
|---------------------------|-----------------|
| Cash and cash equivalents | <u>\$22,379</u> |
|---------------------------|-----------------|

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

|                  |       |
|------------------|-------|
| Accrued expenses | 4,993 |
|------------------|-------|

STOCKHOLDERS' EQUITY:

|  |               |
|--|---------------|
| Common stock, par value \$0.01 per share,<br>authorized and issued 2,000 shares,<br>1,265 shares outstanding | \$ 5,000      |
| 735 shares in the treasury   | ( 750)        |
| Additional paid-in capital   | 1,500         |
| Retained earnings - EXHIBIT B  | <u>11,636</u> |

|                            |               |
|----------------------------|---------------|
| Total stockholders' equity | <u>17,386</u> |
|----------------------------|---------------|

|   |                 |
|---|-----------------|
| Total liabilities and stock-<br>holders' equity | <u>\$22,379</u> |
|---|-----------------|

The accompanying notes are an integral  
part of these financial statements.

FEDERAL STREET CAPITAL, INC.STATEMENT OF OPERATIONS AND DEFICIT  
FOR THE YEAR ENDED DECEMBER 31, 2005

## OPERATING REVENUES:

|                   |                |
|-------------------|----------------|
| Professional fees | \$ 128,900     |
| Placement fees    | <u>145,638</u> |

Total operating revenues \$ 274,538

## OPERATING EXPENSES:

|                                   |            |
|-----------------------------------|------------|
| Commission and consulting expense | 115,407    |
| Administrative services           | 19,830     |
| Regulatory fees and licenses      | 10,315     |
| Accounting and auditing           | 7,800      |
| Rent expense                      | 6,000      |
| Insurance                         | 3,516      |
| Office expense                    | 2,404      |
| Legal expense                     | 2,271      |
| Taxes                             | 581        |
| Travel                            | <u>132</u> |

Total operating expenses 168,256

OPERATING INCOME 106,282

## OTHER INCOME:

Interest income 445

NET INCOME 106,727

DEFICIT, JANUARY 1, 2005 ( 55,663)

DISTRIBUTIONS ( 39,428)

RETAINED EARNINGS, DECEMBER 31, 2005 - EXHIBIT A \$ 11,636

The accompanying notes are an integral  
part of these financial statements.

FEDERAL STREET CAPITAL, INC.STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2005INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

## CASH FLOWS FROM OPERATING ACTIVITIES:

|  |                 |
|--|-----------------|
| Net income   | \$ 106,727      |
| Adjustment to reconcile net income to net cash provided by operating activities: |                 |
| Decrease in accrued expenses   | <u>( 1,199)</u> |
| Net cash provided by operating activities  | 105,528         |

## CASH FLOWS FROM FINANCING ACTIVITIES:

|  |                  |
|--|------------------|
| Additional capital contributions by shareholders     | \$ 1,500         |
| Return of additional paid-in capital to shareholders | ( 70,252)        |
| Distributions paid                                   | <u>( 39,428)</u> |
| Net cash provided (used) by financing activities     | <u>(108,180)</u> |

NET DECREASE IN CASH AND CASH EQUIVALENTS ( 2,652)

CASH AND CASH EQUIVALENTS, JANUARY 1, 2005 25,031CASH AND CASH EQUIVALENTS, DECEMBER 31, 2005 \$ 22,379SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

## CASH PAID DURING THE YEAR FOR:

Income taxes \$ 581

The accompanying notes are an integral part of these financial statements.



FEDERAL STREET CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

Note 1: SUMMARY OF BUSINESS OPERATIONS AND SIGNIFICANT ACCOUNTING  
POLICIES

Organization:

The Company is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the National Association of Securities Dealers (NASD).

The Company's operations consist of selling private venture capital interests in various investments.

Cash and Cash Equivalents:

The Corporation considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

Income Taxes:

The Company, with the consent of its stockholders, filed an election with the Internal Revenue Service to be classified as an S corporation for Federal and state income tax purposes. Consequently, the stockholders are generally taxed on their proportionate share of the Company's taxable income. These financial statements reflect only a minimum state income tax provision.

Use of Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FEDERAL STREET CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2005

Note 2: NET CAPITAL REQUIREMENTS

As a member of the National Association of Security Dealers and under Rule 15c3-1 of the Securities and Exchange Act of 1934, the Corporation is required to maintain net capital of \$5,000 or 1/5 of the aggregate indebtedness, whichever is greater. Aggregate indebtedness must not exceed net capital, as those terms are defined by a ratio of more than 15 to 1. At December 31, 2005, the Corporation had net capital and required net capital of \$17,386 and \$5,000, respectively, and its ratio of aggregate indebtedness to net capital was .29 to 1.

Note 3: RELATED PARTY TRANSACTIONS

Placement and professional fees are derived from the sale of venture capital interests in investments which the shareholders of the Corporation are also investors and managers. During the year ended December 31, 2005, the Company received \$274,538 in fees from the sale of these interests. The Company also paid \$115,407 in commissions to officers and shareholders for their part in the placement and managing of these investments.

During the year, the Company entered into an agreement to rent office space from a related party for \$500 per month. For the year ended December 31, 2005, rental expense was \$6,000. Additionally, Federal Street Capital, Inc. has agreed to pay administrative fees to this related party. For the year ending December 31, 2005, these fees were \$19,830.

Note 4: DISCLOSURE OF SIGNIFICANT RISKS AND UNCERTAINTIES

Concentrations:

The Company operates principally in metropolitan Boston and New England. The Company had revenue of \$274,538 during 2005 from the sale of interests in venture capital entities under common control.

